Ex. 39
6720-TI-161

REBUTTAL TESTIMONY OF RICHARD J. FLORENCE
ON BEHALF OF AMERITECHWISCONSIN

INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard J. Florence, and my business address is 444 Michigan Avenue, Detroit, Michigan 48226.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by SBC Telecommunications, Inc. (SBC) as Director – Cost Analysis and Regulatory.

Q. PLEASE DESCRIBE YOUR EDUCATION, PROFESSIONAL AFFILIATIONS, AND COMPANY EXPERIENCE.

A. I graduated from Wayne State University in 1972 with a Bachelor of Science degree in electrical engineering. In 1976, I received a Master's degree in business administration from the University of Detroit. In 1998, I received a Master's of Science in Finance degree from Walsh College.

I have also attended numerous classes, seminars, and symposia to broaden my knowledge and help keep abreast of current issues impacting my job responsibilities. I am a

registered Professional Engineer in the State of Michigan, a member of the Engineering Society of Detroit, and the Institute of Electrical and Electronic Engineers.

I have been employed by Michigan Bell, Ameritech and SBC since 1972. Until 1994, my duties primarily involved Michigan. Since then, my position has been regional.

I have been responsible for service cost issues since 1976. Originally, I was given responsibility for the preparation of cost studies for private line services, basic exchange and local services, and customer premises equipment. In 1983, in addition to those services, I became responsible for the preparation of cost studies for intraLATA toll and WATS services, information and operator services, pay phone services, central office services such as Custom Calling and Touch Tone, and the central office portion of Centrex services. In 1991, I was assigned responsibility for the preparation of cost studies for all intrastate services. In late 1993, as a result of organizational changes in the company, my new title became Manager – Regulatory. In that capacity, I served as the Michigan regulatory contact on various cost and other economic issues.

In September of 1994, I moved to the economic analysis group, and my responsibilities were expanded to include providing economic analyses support to the entire Ameritech region. In addition, I was responsible for performing cost studies, assisting the Ameritech cost managers on cost study methodology issues, and reviewing cost studies performed by Ameritech personnel for consistency and accuracy. In 1996, my responsibilities were broadened to include managing network cost model use and development throughout the Ameritech region and managing the development of cost studies for various services and Unbundled Network Elements (UNEs).

Earlier this year I was appointed to my present position where I have cost analysis responsibilities for the entire 13 state SBC Region.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE WISCONSIN PUBLIC SERVICE COMMISSION?

A. I have not testified before the Wisconsin Commission. I have, however, testified before the Michigan Commission on cost matters in numerous proceedings involving issues such as Customer Owned Coin Operated Telephone Service, Message Toll Service, Switched and Special Access Services, Directory Assistance service, Centrex service, E9-1-1 billing issues, unbundled network elements, collocation, service provider number portability, pole attachments and conduit occupancy, and basic local exchange service.

I have also submitted testimony regarding the Total Service Long Run Incremental Cost (TSLRIC) methodology used in Michigan for cost studies for services and testimony on the Total Element Long Run Incremental Cost (TELRIC) methodology used for cost studies for UNEs.

Finally, I have testified in Illinois regarding cost issues on collocation and UNE nonrecurring costs and in Michigan, Illinois and Indiana regarding cost matters involving special construction charges.

Q. WHICH CASES INVOLVED COST MATTERS RELATING TO THE APPLICATION OF SPECIAL CONSTRUCTION CHARGES?

A. I testified in a Michigan complaint case initiated by BRE Communications d/b/a Phone Michigan, an Illinois complaint case brought by McLeodUSA, an Illinois generic proceeding on special construction charging and an Indiana complaint case filed by McLeodUSA.

.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to cost-related allegations made by Mr. Starkey regarding the following issues:

- Use of Integrated Digital Loop Carrier (IDLC) technology vs. Non-Integrated or Universal Digital Loop Carrier (UDLC)
- Use of Remote Switching Units (RSU)
- Use of factors in Ameritech Wisconsin's cost studies
- Loop Conditioning
- New Build Situations

USE OF INTEGRATED DIGITAL LOOP CARRIER (IDLC) TECHNOLOGY VS. NON-INTEGRATED OR UNIVERSAL DIGITAL LOOP CARRIER (UDLC)

Q. ON PAGE 21 OF HIS DIRECT TESTIMONY, MR. STARKEY ALLEGES THAT AMERITECH WISCONSIN IS DEPLOYING TWO DIFFERENT NETWORKS, FOR COST STUDY PURPOSES, ONE BASED ON IDLC FOR RETAIL SERVICES AND ONE BASED ON UDLC FOR UNBUNDLED LOOPS. HE ALSO ALLEGES THAT UDLC IS NOT A FORWARD LOOKING TECHNOLOGY. DO YOU AGREE WITH MR. STARKEY'S CONCLUSIONS?

A. No. I do not. The least cost, forward looking network design reflected in both Ameritech Wisconsin's TELRIC and TSLRIC studies is based on one, not two networks. Mr. Starkey's statement ignores the fundamental fact that different UNEs/services often require different network components when being provisioned. Contrary to Mr. Starkey's allegation, Ameritech Wisconsin is properly reflecting in its TELRIC/TSLRIC studies the specific network components of this one network that are used to provision UNEs, such

as unbundled loops, or the bundled loop portion of retail services such as basic local services.

IDLC happens to be the least cost, most efficient means of provisioning bundled loops used for retail services served by digital loop carrier (DLC). Likewise, the use of UDLC is the least cost, most efficient method of providing unbundled loops served by DLC. While I would agree that on a per loop basis, the use of IDLC is less costly than the use of UDLC, the UDLC equipment remains the least costly method of provisioning unbundled loops served by DLC. Only UDLC can provide the least cost method to terminate the individual loops served by a DLC system on the main distribution frame (MDF) for cross connection to the CLEC. Consequently, it is the appropriate forward- looking technology to be used in unbundled loop TELRIC studies.

Q. ARE YOU FAMILIAR WITH THE UNBUNDLED LOOP COST STUDIES APPROVED BY THIS COMMISSION, THAT WERE USED AS THE BASIS FOR DETERMINING AMERITECH WISCONSIN'S PRESENT UNBUNDLED LOOP RECURRING AND NON RECURRING RATES?

A. Yes, I was responsible for the preparation of those cost studies. Those cost studies were completed in 1997 and were ultimately approved as part of Ameritech Wisconsin's Statements of Generally Available Terms and Conditions (SGAT) filing made during that time period.

Q. DID THOSE COST STUDIES REFLECT THE USE OF UDLC TECHNOLOGY?

A. Yes, at that time, the forward looking technology for loops served by DLC was the LITESPAN DLC technology.

Q. PLEASE DESCRIBE WHAT IS MEANT BY LITESPAN DLC.

A. Historically, network access lines were provided via a continuous transmission path over individual pairs of copper wires. Advances in digital transmission technology, coupled with the development of digital switching and increased demand for telephone services, make it efficient to use digital transmission technology and fiber optic loops. This includes DLC systems, such as Litespan DLC, when either congestion or loop lengths make its deployment appropriate. Through DLC, a large number of copper loops can be aggregated at a particular point in the network, such as in a hut or a cabinet. Individual copper loops from the customer side are connected to a remote terminal (RT), which converts analog signals to digital form and combines them on a single facility for transmission back to the central office.

The DLC configuration reflected in the unbundled loop cost study uses a fiber optic facility to connect the RT to a central office terminal (COT), which then demultiplexes the signals through the use of UDLC plug-in circuit cards. Jumper wires are then used to terminate each individual loop onto the main distributing frame at the central office. This

type of configuration is referred to as universal or non-integrated digital loop carrier. This configuration is necessary to unbundle a single loop from the Litespan DLC System.

Q. HOW DOES THE LITESPAN DLC REFLECTED IN A TSLRIC STUDY FOR THE LOOP PORTION OF BASIC LOCAL EXCHANGE SERVICE DIFFER FROM THE LITESPAN DLC REFLECTED IN A TELRIC STUDY FOR UNBUNDLED LOOPS?

A. The difference lies in the equipment used at the central office or COT end of the DLC system. For a loop used in a retail service, such as basic local exchange service, loops served by fiber facilities terminate in an IDLC plug in circuit card at the COT and are connected directly into the switch at a DS-1 level (24 voice-grade channels) via a DSX cross-connect equipment bay. This is the least cost manner of provisioning such a service. An individual loop could not be extracted from such a system on an unbundled basis, hence, the need for the UDLC design when unbundling became necessary.

Q. ON PAGES 23-24 AND 32 OF HIS TESTIMONY, MR. STARKEY SEEMS TO SUGGEST THAT THE COST STUDIES FOR BOTH UNBUNDLED AND BUNDLED LOOPS OUGHT TO REFLECT THE IDLC TECHNOLOGY. DO YOU AGREE WITH HIS POSITION ON THIS MATTER?

A. No, for the simple reason that the only possible way to extract or groom unbundled loops from those LITESPAN DLC systems was to use the UDLC technology that I described. Even today, the use of UDLC remains the least cost method of unbundling loops served by the next generation LITESPAN DLC that is currently available. In other words,

LITESPAN IDLC is the least cost method to provision local exchange service provisioned by DLC and LITESPAN UDLC is also the least cost method of provisioning unbundled loops served by DLC. I will discuss this in more detail when I respond to Mr. Starkey's remarks on Project Pronto.

Q. IS THIS THE APPROPRIATE PROCEEDING IN WHICH TO ADDRESS THESE ISSUES?

A. No, in my opinion it is not. This is not a TELRIC proceeding. The issue of what is the appropriate forward looking technology used to provision unbundled loops is properly examined in the current TELRIC proceeding, Docket No. 6720-T1-161. Nonetheless, since Mr. Starkey devotes a considerable portion of his direct testimony to this matter, Ameritech Wisconsin must respond to his allegations.

Q. ON PAGES 36-40 OF HIS DIRECT TESTIMONY, MR. STARKEY DISCUSSES THE PROJECT PRONTO INITIATIVE ANNOUNCED BY SOUTHWESTERN BELL COMMUNICATIONS DURING OCTOBER 1999. HE CONCLUDES THAT THE DIGITAL ELECTRONICS USED FOR PROJECT PRONTO ARE THE SAME NEXT GENERATION DLC (NGDLC) ELECTRONICS AT ISSUE IN THIS CASE. IS MR. STARKEY CORRECT?

A. No, Mr. Starkey is wrong. He is misusing the Project Pronto information. In my affidavit submitted on January 6, 2000 in response to MCIWorldCom's Petition for Rehearing and Reopening in Michigan Case No. U-11831, I explained the relationship of the Project Pronto initiative to types of NGDLC.

> The Project Pronto technology is a form of Next Generation Digital Loop Carrier ("NGDLC") that allows for simultaneous transfer of voice and data communications over the same equipment. That is, Project Pronto will enable SBC to transform itself into an "advanced data company" that provides a host of broadband services over a single network to more customers. However, the majority of the voice traffic carried over loops served by the equipment deployed for Project Pronto will still terminate at the central office in equipment which is functionally equivalent to the integrated or nonintegrated DLC equipment used today and reflected in the cost studies submitted by Ameritech Michigan in this proceeding for bundled and unbundled loops, respectively.
>
> MCI is attempting to lump all NGDLC technology, such as GR-303 and Project Pronto, together. In truth, NGDLC is merely a generic term that encompasses a whole host of existing and developing DLC technologies. The thrust of Project Pronto is to simply offer a cost effective way to provide xDSL services.

These comments are equally applicable to Ameritech Wisconsin, as Mr. Weydeck points out in his rebuttal testimony.

Q. DOES THIS NEXT GENERATION DLC EQUIPMENT BEING DEPLOYED IN AMERITECH WISCONSIN'S NETWORK HAVE THE ABILITY TO ALLOW INDIVIDUAL UNBUNDLED LOOPS TO BE GROOMED OR EXTRACTED WITHOUT THE NEED TO FIRST TERMINATE THE INDIVIDUAL LOOP ON THE MAIN DISTRIBUTING FRAME?

A. No. Because the IDLC digital lines are connected directly to the central office switch, individual loops are still not physically or electrically accessible at the connection to the switch. Instead, these loops exist only as digital pulses interspersed in the digital line bit streams.

The only cost effective, i.e., least cost way, to unbundle loops served by this system

(whether it is GR-303 compliant or not) is to utilize a UDLC, rather than IDLC plug-in circuit card at the COT that allows the individual loops to be extracted and then terminated on the main distributing frame for cross connection to the CLEC's equipment. This is the forward looking, least cost design reflected in both Ameritech Wisconsin's cost studies submitted in its SGAT filing and Case No. 6720-T1-161 and discussed in Mr. Weydeck's rebuttal testimony.

All other means of unbundling individual loops from this next generation DLC are more costly and less efficient, requiring the use of additional equipment and facilities that are over and above the cost of the DLC equipment itself and not reflected in Ameritech Wisconsin's cost studies.

Q. WHAT HAS THE FCC STATED REGARDING THE UNBUNDLING OF IDLC PROVISIONED LOOPS?

A. In its First Report and Order and Further Notice of Proposed Rulemaking in C.C. Docket 96-98, the FCC stated:

> We find that it is technically feasible to unbundle IDLC-delivered loops. One way to unbundle an individual loop from an IDLC is to use a demultiplexer to separate the unbundled loop(s) prior to connecting the remaining loops to the switch. Commenters identify a number of other methods for separating out individual loops from IDLC facilities, including methods that do not require demultiplexing. Again, the costs associated with these mechanisms will be recovered from the requesting carriers.

Q. DO YOU BELIEVE THAT PARAGRAPH 384 OF THE FCC ORDER REQUIRES THE USE OF IDLC IN TELRIC STUDIES FOR UNBUNDLED LOOPS?

A. Absolutely not. The key sentence in Paragraph 384 is the one that states "Commenters identify a number of other methods for separating out individual loops from IDLC facilities, including methods that do not require demultiplexing." This is exactly the method reflected in Ameritech Wisconsin's unbundled loop TELRIC study. When a CLEC requests an unbundled loop that is served, at the time, by IDLC, Ameritech Wisconsin will move the loop to a spare copper facility if one is available or change the loop from an IDLC to a UDLC design by changing the plug-in card at the central office termination. These are examples of the "other methods" envisioned by the FCC in its statement in Paragraph 384.

Furthermore, Ameritech Wisconsin's TELRIC studies are in conformance with Paragraph 691 of the FCC's Order in that they reflect the fact that costs "must be attributed on a cost causative basis" and that costs are "causally related to the network element being provided if the costs are incurred as a direct result of providing the network elements, or can be avoided, in the long run, when the company ceases to provide them." The use of UDLC in the provision of unbundled loops falls into the cost causative situation envisioned by the FCC and described in its Order.

Q. ARE YOU AWARE OF ANY OTHER FCC ACTIONS IN RECENT PROCEEDINGS ON THIS SUBJECT?

A. Yes. In December 1999, the FCC rejected a claim by AT&T that Bell Atlantic's application of UDLC to its unbundled loop costs makes Bell Atlantic's costs and rates inconsistent with TELRIC principles. The FCC concluded by stating:

> AT&T also alleges that Bell Atlantic's prices for unbundled loops include the costs of terminating DLC circuits at the switch using antiquated terminations rather than the modern GR-303 technology used for the loop feeder. AT&T contends that Bell Atlantic's use of older DLC terminations does not reflect an efficient, forward-looking network and thus violates TELRIC principles. AT&T again raised an identical argument before the New York Commission. The New York Commission found no evidence to support AT&T's allegations regarding either feeder or DLC terminations.
>
> We find that AT&T has not presented sufficient evidence to prove that the New York Commission erred in its determination or that it neglected to consider any relevant facts relating to fiber feeder or DLC termination technology. We have no reason to disagree with the New York's Commission's conclusion that Bell Atlantic's use of fiber and DLC termination technology in this case does not make its rates inconsistent with TELRIC methodology.

In the Matter of Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to Provide In-Region, InterLATA Service in the State of New York, Memorandum Opinion and Order, 1999 WL 1243135 (FCC), FCC 99-404, CC Docket No. 99-295 (rel. December 22, 1999), at ¶¶ 248-249 (emphasis added).

Q. ON PAGE 18 OF HIS DIRECT TESTIMONY, MR. STARKEY ALLEGES THAT SPECIAL CONSTRUCTION CHARGES ARE MEANT TO RECOVER SHORT RUN MARGINAL COSTS FOR MODIFYING AMERITECH'S EXISTING

EMBEDDED NETWORK TECHNOLOGY. HE CONCLUDES THAT THIS IS INCONSISTENT WITH THE FCC's TELRIC METHODOLOGY. DO YOU AGREE WITH HIS ALLEGATION AND CONCLUSION?

A. No, I disagree with Mr. Starkey. Special construction charges are based on the time and materials required to "unbundle" the loop being requested when simple or complex facility modifications cannot resolve the situation. While Mr. Starkey has referred to these additional costs as short run costs, these costs clearly are not embedded or historical costs. Rather, they are current costs, calculated on a case by case basis.

Q. **ON PAGE 24 OF HIS TESTIMONY, MR. STARKEY ALLEGES THAT THE FCC'S FIRST REPORT AND ORDER AND FURTHER NOTICE OF PROPOSED RULEMAKING DOES NOT ALLOW AMERITECH WISCONSIN TO CHARGE FOR SPECIAL CONSTRUCTION SINCE THE RESULTANT CHARGES ARE NOT TELRIC BASED. DO YOU AGREE WITH MR. STARKEY?**

A. No, and I also disagree with his conclusion that use of special construction charges in specific situations is inconsistent with the FCC's TELRIC methodology. Paragraph 384 of the FCC's Order which I quoted earlier in my testimony concludes by stating, "Again, the costs associated with these mechanisms will be recovered from the requesting carriers." The statement does not preclude the use of current costs, based on time and materials.

REMOTE SWITCHING UNIT (RSU)

Q. ON PAGE 33 OF HIS DIRECT TESTIMONY, MR. STARKEY STATES THAT THE ISSUES REGARDING LOOPS SERVED BY IDLC ARE SIMILAR TO LOOPS SERVED BY RSU's. WHAT IS A RSU?

A. A RSU is a remote switch unit which functions similar to an IDLC system, but also provides dial tone to the end users served by the remote, thus permitting some localized calling even in the event of a central office malfunction. Remote switches have limited stand-alone capability, since most of the intelligence resides at the host switch.

Remote switches are connected to their host switches by fiber optic facilities and associated circuit equipment commonly called host-remote umbilicals. The umbilical is used to carry control signals between the host and remote switch and to connect calls to any location not served by that remote switch. The host-remote umbilical uses a vendor proprietary interface and protocol which allows the remote to communicate with the host and is not capable of being unbundled.

Q. DO TELRIC OR TSLRIC STUDIES INCLUDE ANY COSTS FOR ENABLING A LOOP SERVED BY A RSU TO BE FURNISHED ON AN UNBUNDLED BASIS?

A. No. Whenever a loop terminates in a remote switch, the cost study reflects only the loop costs from the end user's premises up to the remote switch. The cost study for unbundled loops does not include any additional costs to establish a discrete transmission path between the remote location and the corresponding host switch to make such loops available on an unbundled basis.

In those instances, where no other facility modifications can be made to provide the unbundled loop requested, Ameritech Wisconsin incurs additional costs to extend the loop from the remote location to the host switch. Examples of additional costs are the construction of a parallel copper facility from the remote to the host switch or the costs of placing both the RT portion of a DLC system at the remote location and the related COT at the host central office switch, plus the UDLC plug-in circuit cards. Any necessary fiber transport facility used to connect the RT and COT would add additional costs. None of these extra costs are reflected in the existing unbundled loop TELRIC studies. Consequently, such costs are properly recovered through the application of special construction charges.

USE OF FACTORS IN AMERITECH WISCONSIN'S COST STUDIES

Q. ON PAGES 44-50 OF HIS DIRECT TESTIMONY, MR. STARKEY DISCUSSES THE USE OF FACTORS IN AMERITECH WISCONSIN'S COST STUDIES. HE THEN ARGUES THAT SINCE AMERITECH WISCONSIN IS ALREADY RECOVERING EXPENSES FOR SPECIAL CONSTRUCTION SITUATIONS THROUGH THE USE OF THESE COST FACTORS, IT WOULD 'DOUBLE RECOVER' THESE EXPENSES IF IT WERE ALLOWED TO ASSESS SPECIAL CONSTRUCTION CHARGES. IS MR. STARKEY CORRECT?

A. No, it appears that Mr. Starkey is attempting to inject an element of confusion regarding this matter.

Q. PLEASE EXPLAIN.

A. Ameritech Wisconsin offsets the booked expenses with special construction revenues in accordance with Part 32, Section 5999(g), which states "reimbursements of actual costs incurred in conjunction with joint operations or projects, repairing plant due to damages by others, and obligations to make changes in telecommunications plant shall be credited to the accounts originally charged." Likewise, Ameritech Wisconsin offsets the booked construction costs with special construction revenues received in accordance with Part 32.200(a)(2). Mr. Starkey even acknowledges this on page 49 of his direct testimony.

Said another way, to the extent expenses are incurred in special construction situations, the accounts that these expenses get booked to are simultaneously credited with the special construction revenues. Every $100 of expense is offset with $100 of revenue. Consequently, the special construction costs (or expenses) do <u>not</u> find their way into the calculation of the cost factors used in the unbundled loop cost studies.

Q. IF THE EXPENSES FOR SPECIAL CONSTRUCTION SITUATIONS ARE OFFSET BY THE RELATED SPECIAL CONSTRUCTION CHARGES, WHY DOES MR. STARKEY ALLEGE THAT SOME TYPE OF DOUBLE COUNTING IS POSSIBLE?

A. On page 50 of his direct testimony Mr. Starkey opines that since Ameritech Wisconsin only assesses special construction charges to its retail customers in 'extreme situations', the level of special construction charge offsets in the data used to develop the cost factors is also minimal. Mr. Starkey's logic, however, is flawed.

Q. WHY IS MR. STARKEY'S LOGIC FLAWED?

A. Mr. Starkey's logic is flawed for the following reason. The primary issue he has been addressing is the application of special construction charges in situations involving the use of IDLC/UDLC and RSU's. No special construction work is necessary to enable Ameritech Wisconsin to provide local exchange service to its retail end users served by either existing IDLC or RSU's. That is because the loops serving these end users do not have to be unbundled as they would have to be if requested to be unbundled by a CLEC.

Since no special construction work is performed in these situations, no special construction expenses 'find their way' into the data used to develop the cost factors. Thus, there is no double recovery of these expenses.

In those instances where a private line service required a re-configuration due to the use of IDLC or RSU in the network, Ameritech Wisconsin's retail customer would be assessed special construction charges which would then be credited as a revenue offset to

the expenses incurred, in accordance with Part 32 rules. Hence, even in these situations no double counting can occur.

LOOP CONDITIONING

Q. ON PAGE 43 OF HIS DIRECT TESTIMONY, MR. STARKEY SUMMARIZES THE INTERIM CHARGES SET IN TEXAS THAT SWBT MAY CHARGE FOR DIFFERENT TYPES OF LOOP CONDITIONING. HAVE YOU REVIEWED THE TEXAS COMMISSION ORDER THAT ADOPTED THESE INTERIM RATES?

A. Yes, I have.

Q. IN WHAT PROCEEDING IN TEXAS WERE THESE INTERIM CHARGES ORDERED?

A. These interim charges were ordered by the Texas Commission as part of an arbitration award in Docket Nos. 20226 and 20272.

Q. BASED ON YOUR REVIEW OF THE TEXAS ORDER, WHAT KEY ASSUMPTION RESULTED IN SUCH LOW LOOP CONDITIONING INTERIM CHARGES?

A. The interim charges reflect the Arbitrators' view that SWBT use a size of 50 loops for purposes of developing its unit costs to remove load coils, bridged taps, or repeaters on loops between 12,000 feet and 18,000 feet in length. This had the effect of spreading the outside plant engineering and cable splicing cost portion of the total conditioning costs

over a value of 50, a reduction of 98% from the costs originally submitted by SWBT. For loops greater than 18,000 feet, a value of 25 loops was assumed resulting in a 96% reduction. SWBT properly argued that it should not be required to have its cost study reflect conditioning for more loops than the CLEC requests. At an open meeting held January 27, 2000, the Texas Commission stressed that the loop conditioning rates it ordered are interim, and would be re-evaluated when SWBT files its loop conditioning cost study.

Since the time of that order, SWBT has submitted a new loop conditioning cost study in the compliance phase of the Texas proceeding that, if approved, would result in higher, more economically correct loop conditioning charges. It is my understanding that a final order, however, has not yet been issued in that phase of the proceeding.

Q. ON PAGE 34 OF HIS DIRECT TESTIMONY, MR. STARKEY ARGUES THAT THE WISCONSIN COMMISSION SHOULD FIND IN THIS PROCEEDING THAT AMERITECH WISCONSIN ONLY BE ALLOWED TO CHARGE INTERIM RATES NO HIGHER THAN THOSE APPROVED BY THE TEXAS COMMISSION UNTIL THE WISCONSIN COMMISSION APPROVES A COST STUDY SUPPORTING OTHER LINE CONDITIONING CHARGES. DO YOU AGREE WITH MR. STARKEY'S RECOMMENDATION?

A. No. Mr. Starkey is merely attempting to have this Commission conveniently adopt loop conditioning charges set on an interim basis in another state at unreasonably low levels. In my opinion, a more reasonable interim solution is to allow Ameritech Wisconsin to

charge special construction rates that enable it to recover the loop conditioning costs it incurs until the Commission rules on the loop conditioning cost study Ameritech Wisconsin submitted in Case No. 6720-T1-161.

NEW BUILD SITUATIONS

Q. ON PAGE 17 OF HIS DIRECT TESTIMONY, MR. STARKEY COMMENTS THAT THE "REQUIREMENT" THAT AMERITECH WISCONSIN'S CUSTOMERS "GIVE BACK" THE FACILITIES THEY HAVE PAID TO CONSTRUCT IS "UNTENABLE." ON PAGES 18-19 OF HIS TESTIMONY, HE BEGINS A DISCUSSION THAT USES TWO EXAMPLES TO SUPPORT HIS OPINION. CAN YOU COMMENT ON MR. STARKEY' S EXAMPLES?

A. Yes, I can. First, as a general matter, it is simply business as usual for telephone companies to retain ownership of the facilities they construct even after their customers pay for those facilities. This is true if the customers pay over a long period of time at standard tariffed rates, or if they pay over a shorter period of time under a customer-specific contract, or if they pay in a single, up-front payment.

Second, Mr. Starkey also uses the term "customer" throughout his testimony interchangeably, referring to developers, CLECs and Ameritech Wisconsin's end-users. This confusing use of terminology often makes it appear that end users will be forced to pay the build-out fee. In fact, it is the developers or the CLECs who will be primarily impacted by this policy.

Third, Mr. Starkey's simple examples misrepresent the application of the Company's build-out policy. Specifically, they imply that the end-user customer has paid for the entire cost of the facilities in question up-front. The examples do not recognize the standard allowance portion of the total capital outlay that is paid for by Ameritech Wisconsin. In any event, the examples he provides do not depict an "untenable" policy.

In his first example, a residential customer builds a house and pays Ameritech Wisconsin $1000 up-front to construct facilities to serve it. One year later, the customer is transferred and moves away. Mr. Starkey, argues that since the customer can't retrieve some of his/her $1000 investment under the build-out policy, and the facilities have economic value, an "irretrievable transfer of wealth" has occurred between Ameritech Wisconsin and the customer. In addition to wrongly implying that the customer has paid for the entire facility, the example also assumes the facility has an economic value. However, the high-cost facility only has an economic value to Ameritech Wisconsin if another person(s) moves into the house and becomes an Ameritech Wisconsin customer. There is no guarantee that will ever happen. In fact, Mr. Starkey's example illustrates the problem the build-out policy was designed to remedy. That is, it increases the chances that Ameritech Wisconsin will recover its construction costs in high-cost developments in a volatile environment.

Mr. Starkey's second example assumes the same customer and the same $1000 investment. However, instead of moving after a year, the customer decides to become a CLEC customer. Mr. Starkey then goes on to object to the build-out policy because the CLEC would be expected to pay the full tariffed rate for the unbundled loop used to serve the customer. The full tariffed rate, in turn, is based on TELRIC costs and supposedly includes costs for all the components of a loop, including those components covered by the customer's $1000. Thus, according to Mr. Starkey, the CLEC should pay less than the tariffed rate for the loop and the customer should, in turn, get a cheaper rate from the CLEC, all in consideration of that initial $1000 expenditure. Of course, this can not happen because, again according to Mr. Starkey, Ameritech Wisconsin retains ownership of the facilities involved.

Mr. Starkey's second example again misrepresents the build-out policy by implying the customer has paid the full cost for the high-cost facility. His second example also disregards the economic value of the facility that was the foundation of his first example. That is, TELRIC is supposed to reflect the forward-looking economic value of the asset. There is nothing in the FCC's forward-looking TELRIC methodology that requires TELRIC-based rates to consider the past expenditures of customers for access to the network or past cost recovery by the Ameritech Wisconsin.

Q. ON PAGE 62-63 OF HIS DIRECT TESTIMONY, MR. STARKEY ARGUES THAT THROUGH ITS BUILD-OUT POLICY AMERITECH WISCONSIN IS SIMPLY DISAGREEING WITH THE DEPRECIATION LIVES APPROVED BY THE WISCONSIN COMMISSION AND ATTEMPTING TO CIRCUMVENT THE COMMISSION'S AUTHORITY ON THIS MATTER. HE ALSO ALLEGES THAT AMERITECH WISCONSIN COULD ADDRESS ITS CONCERNS RELATIVE TO THE TIMEFRAMES OVER WHICH NEW INVESTMENTS ARE RECOVERED BY FILING WITH THE COMMISSION TO REDUCE DEPRECIATION LIVES. PLEASE RESPOND TO MR. STARKEY'S ALLEGATIONS.

A. Contrary to Mr. Starkey's suspicions, Ameritech Wisconsin is not expressing its disagreement with the depreciation lives approved by the Wisconsin Commission. Mr. Starkey's criticism misses the point. The fact that Ameritech Wisconsin collects some of its investment in high-cost distribution facilities up front has absolutely no impact on the economic lives of the facilities themselves.

The economic lives of the underlying distribution facilities are not impacted, regardless of how the Company asks customers to pay for their construction. Further, simply reducing the economic lives of certain plant accounts would not have the same result as application of the build-out policy. In other words, reducing lives would not allow Ameritech Wisconsin to collect the same amount from developers up-front as the application of the build-out policy would.

In addition, even if the Commission agreed with Mr. Starkey and wrongly ordered Ameritech Wisconsin to deal with high-cost developments by filing for reduced depreciation lives, the effect, if reflected in the average prices for services and unbundled

network elements, would be to increase those average prices, as Mr. Starkey acknowledges on page 62 of his testimony. Specifically, his proposal would raise the average cost and rates of all customers in order to recover costs incurred on behalf of a small subset of Ameritech Wisconsin's customers.

Ameritech Wisconsin's new build policy is not an attempt to circumvent the depreciation lives ordered by the Commission. It is rather an attempt to recover more of the costs caused by new high-cost developments directly from the developers who cause them.

Q. AT PAGES 63-64 OF HIS DIRECT TESTIMONY, MR. STARKEY ARGUES THAT AMERITECH WISCONSIN'S NEW BUILD POLICY CANNOT BE CONSIDERED ANYTHING BUT A RATE INCREASE. IN YOUR OPINION, CAN ASSESSING SPECIAL CONSTRUCTION CHARGES FOR NEW BUILD SITUATIONS CONSTITUTE A RATE INCREASE?

A. In my opinion it does not. The Part 32 accounting rules are very clear on this matter. Specifically, Part 32.200(a)(2) state:

> "The telecommunications plant accounts shall not include the cost or other value of telecommunications plant contributed to the company. Contributions in the form of money, or its equivalent towards the construction of telecommunications plant shall **be credited to the accounts charged with the costs of such construction."** [32.200(a)(2)]

The language plainly states that money received for construction should be treated as a credit to the applicable capital cost account. Such monies are clearly not revenues, as Mr. Starkey alleges. If there are no incremental revenues resulting from the plan, there can be no revenue increase and if there is no revenue increase, the plan cannot logically be viewed as a rate increase.

Additionally, construction charges for new build situations paid by developers or CLECs under Ameritech Wisconsin's policy are not a rate increase since these charges are similar to the special construction charges that have been assessed for years. These charges exist independently of and in addition to standard tariff rates and are also accounted for as required by Part 32.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.